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C O N F I D E N T I A L DUSHANBE 001734

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STATE DEPARTMENT FOR SCA/CEN AND SCA/RA LEO GALLAGHER,  
EEB/IFD/OMA ANDREW SNOW, TREASURY FOR JEFF BAKER

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SUBJECT: TAJIK COTTON DEBT CRISIS UPDATE

REF: DUSHANBE 1589

Classified By: Tracyey A. Jacobson, Ambassador, 1.4 (b) and (d)

¶1. (C) On December 6 Pol/Econ Chief spoke with Katherine Kelm of the Asian Development Bank (protect), about the status of efforts by the Asian Development Bank, World Bank, and International Monetary Fund, to resolve the problems of Tajikistan's \$400 million cotton debt (reftel), and the prospect that Tajikistan would accept another Poverty Reduction and Growth Facility from the International Monetary Fund.

¶2. (C) Kelm informed us that an International Monetary Fund assessment team arrived in Dushanbe early on December 6. The team will spend a week in-country on a fact-finding mission to determine to what degree the cotton debt crisis would impact Tajikistan's macroeconomic stability, and the extent to which there are state guarantees on the cotton debt.

¶3. (C) The team will discuss the possibility of a Poverty Reduction and Growth Facility program for Tajikistan. Tajikistan would have to formally request the program. Kelm noted that if Tajikistan accepted such a program, then "all projects must come under its umbrella." She said that the three international financial institutions were working closely together on this issue, and "would take a strong stance that Tajikistan must implement reforms."

¶4. (C) After the International Monetary Fund team has completed its week-long visit, it may issue a statement on the degree of seriousness of the situation. The three international financial institutions may also organize a briefing for donors on the cotton debt crisis, to which the U.S. Embassy would be invited.

¶5. (C) Prime Minister Agil Agilov November 28 publicly issued instructions to Tajikistan's banks to design new mechanisms for financing next year's cotton planting. This suggests that the government may be panicking about where the funds will come from for the upcoming season. The Asian Development Bank and World Bank programs would include technical advice to private banks as well as agricultural loan guarantees to help fund the foreseen shortfall in cotton loans.

¶6. (C) The first of the foreign banks, reported repayment calls with the non-banking institution Kredit Invest that was due at the end of November came and went. We do not know whether the Tajik government rescheduled the loan with ATF Bank or if the Asian Development Bank assisted in holding off the creditor.

¶7. (C) Comment: President Rahmon "hit the roof" when the international financial institutions pushed him to accept a new International Monetary Fund program in early November. However, it is unclear whether the Asian Development Bank will stick to its guns and insist that Tajikistan accept a new International Monetary Fund program as a condition for it to start its new \$80 million budget support program. Members of the President's Center for Strategic Research commented to the Ambassador on December 5 that there were still a variety of paths open to the Government of Tajikistan, but that the main goal must be to "free the farmers" from crippling debts and allow them to grow whatever crops they feel the market demands, without undue government interference. The Tajik government seems very reluctant to start a new International Monetary Fund program and is carefully studying its other options, possibly including the sale of state assets or natural resource exploitation rights. End Comment.  
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